

Message Text

CONFIDENTIAL

PAGE 01 STATE 003661
ORIGIN EB-07

INFO OCT-01 ARA-06 ISO-00 TRSE-00 OMB-01 AID-05 FEAEE-00
CIEP-01 IGA-02 XMB-02 INRE-00 CIAE-00 INR-07 NSAE-00
SSO-00 /032 R

DRAFTED BY EB/IFD/ODF:FHTHOMAS:BD

APPROVED BY ARA:JGRUNWALD

ARA/ECP:SHROGERS

TREASURY:BZINMAN (SUBSTANCE)

EB/FSE:MCREEKMORE (IN DRAFT)

ARA/AND:DCOX

EB/IFD/ODF:JABWINDER

LA/MRSD:PLANSDALE

-----071825Z 106439 /46

O R 071814Z JAN 77

FM SECSTATE WASHDC

TO AMEMBASSY BOGOTA IMMEDIATE

INFO AMEMBASSY KINGSTON

CONFIDENTIAL STATE 003661

E.O. 11652: GDS

TAGS: EFIN, IDB, EAID, ENRG, CO

SUBJECT: STATE 313925, BOGOTA 0037

1. IDB HAS CIRCULATED LOAN DOCUMENTS PROPOSING 29.5 MILLION DOLS O.C. LOAN TO COLOMBIA TO EXPAND CARTAGENA REFINERY.

2. THE USG HAS STRONG RESERVATIONS TO LOAN PROPOSAL ON ECONOMIC AS WELL AS POLICY GROUNDS. WE HAVE CONCLUDED THAT THIS PROJECT IS AN INAPPROPRIATE USE OF LIMITED DEVELOPMENT FUNDS. ALTERNATIVE SOURCES OF FINANCING FOR THIS PROJECT SHOULD BE AVAILABLE.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 003661

3. YOU ARE REQUESTED TO CONVEY ABOVE U.S. CONCERNS TO APPROPRIATE HIGH-LEVEL GOC OFFICIALS, INQUIRE ABOUT GOC MEASURES TAKEN TO OBTAIN ALTERNATIVE FINANCING, STATE THAT USG BELIEVES IDB FINANCING INAPPROPRIATE FOR THIS PROJECT AND ENCOURAGE GOC TO SEEK ALTERNATIVE FINANCING.

4. WE WILL BE MEETING WITH EXECUTIVE DIRECTORS OF OTHER IDB DONOR NATIONS INCLUDING CANADA, GERMANY, AND JAPAN SEEKING SUPPORT FOR OUR POSITION AND WILL ALSO CONVEY THE GIST OF OUR POSTURE TO COLOMBIAN DIRECTOR AT BANK.

5. REQUEST YOU REPORT NATURE OF GOC REACTION BY IMMEDIATE CABLE ON JANUARY 10 IF POSSIBLE.

6. THE FOLLOWING PARAGRAPHS OUTLINE SOME SPECIFIC USG RESERVATIONS ABOUT THIS PROJECT FOR USE AS APPROPRIATE.

7. THE IDB DOCUMENTS NOTE THAT THE PROJECT WILL LOSE 263.6 MILLION DOLS OVER 15-YEAR REPAYMENT TERM MAINLY BECAUSE OF COLOMBIA'S DOMESTIC PRICING POLICY FOR PETROLEUM PRODUCTS. THE LOSS FIGURE EVEN ASSUMES A DOUBLING OF DOMESTIC PRICE INCREASES FOR PETROLEUM PRODUCTS BY 1978. BANK DOCUMENT ARGUES THAT ALTERNATIVE OF DIRECT IMPORTATION OF PRODUCTS WOULD RESULT IN EVEN GREATER LOSSES TO ECOPETROL UNDER COMPARABLE ASSUMPTIONS BUT THIS QUOTE LEAST LOSS UNQUOTE ARGUMENT DOES NOT ESTABLISH SOUND RATIONALE FOR USE OF IDB SCARCE DEVELOPMENT FUNDS.

8. THE PROJECT ITSELF IS EXPECTED TO BE MODERATELY EFFICIENT IN TERMS OF TECHNOLOGY AND PRODUCTION. WHEN, FOR EXAMPLE, THE BANK ASSUMES A WORLD PRICE FOR IMPORTED CRUDE OIL AND COMPARES THIS WITH THE WORLD PRICES OF THE TYPE AND QUALITY OF THE REFINERY'S END-PRODUCT, THE INVESTMENT IN THE PROJECT WILL HAVE AN INTERNAL RATE OF RETURN (IRR) OF 10.8 PERCENT. WHILE THE IRR FIGURE IS CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 003661

ABOVE THE IDB MINIMUM OF 10 PERCENT FOR CUSTOMARY DEVELOPMENT PROGRAMS IT IS DISTRESSINGLY LOW FOR AN ENERGY PROJECT OF THIS NATURE. FURTHER, THE IRR RATE IS CALCULATED FOR OPTIMUM CONDITIONS WHICH MAY NOT PREVAIL.

9. WE NOTE GOC PLACES PRIORITY ON BECOMING SELF-SUFFICIENT IN OIL REFINING CAPABILITY BUT ALSO NOTE THERE IS SUBSTANTIAL EXCESS CAPACITY FOR OIL REFINING IN CARIBBEAN. THE PROJECT WILL, OF COURSE, HAVE LIMITED EMPLOYMENT PRODUCING EFFECT AND MINIMAL INSTITUTION BUILDING QUALITIES.

10. BROADER ISSUE OF USE OF IFI FUNDS FOR OIL REFINRIES ALSO RELEVANT. TO DATE ONLY REFINERY PROJECT APPROVED BY U.S. WAS 1973 (PREEMBARGO) BOLIVIAN OIL PROCESSING PLANT. AT TIME OF VOTE, U.S. REPRESENTATIVE INDICATED OUR SUPPORT FOR BOLIVIAN PROJECT SHOULD NOT BE CONSIDERED PRECEDENT AND IT WOULD BE INTENTION USG NOT TO SUPPORT FURTHER LENDING FOR SUCH PROJECTS IN FUTURE SINCE NATURE

OF PRODUCT, NORMALLY HIGH PAYOUT AND GOOD PROSPECTS FOR ALTERNATIVE FINANCING PRECLUDE NEED FOR IDB TO USE SCARCE DEVELOPMENTAL RESOURCES FOR THIS PURPOSE.

11. OVERALL WE ARE CONCERNED THAT IDB DEVELOPMENT FUNDS BEING CONSIDERED FOR THIS PROJECT AND QUESTION PRIORITY GOC REPORTEDLY PLACING ON IDB FINANCING. BOGOTA 0037 APTLY CITES COLOMBIA'S COMMENDABLE ABILITY TO ATTRACT PRIVATE FINANCING FOR Viable PROJECTS.

KISSINGER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, PETROLEUM, DEVELOPMENT BANKS, DEVELOPMENT LOANS, REFINERIES, FOREIGN POLICY
POSITION
Control Number: n/a
Copy: SINGLE
Sent Date: 07-Jan-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE003661
Document Source: CORE
Document Unique ID: 00
Drafter: FHTHOMAS:BD
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770007-0493
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770170/aaaacjoc.tel
Line Count: 126
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6d8a30dc-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 12-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3642639
Secure: OPEN
Status: NATIVE
Subject: STATE 313925, BOGOTA 0037
TAGS: EFIN, EAID, ENRG, CO, US, IDB
To: BOGOTA
Type: TE
vdkgwkey: odbc://SAS/SAS.dbo.SAS_Docs/6d8a30dc-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009